

1 **DIRECT TESTIMONY OF**

2 **FELICIA D. HOWARD**

3 **ON BEHALF OF**

4 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

5 **DOCKET NO. 2009-261-E**

6

7 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
8 **POSITION.**

9 A. My name is Felicia D. Howard and my business address is 1426
10 Main Street, Columbia, South Carolina. I am Director of Demand Side
11 Management of South Carolina Electric & Gas Company (“SCE&G” or the
12 “Company”).

13 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
14 **BUSINESS EXPERIENCE.**

15 A. I have a Bachelor of Science Degree in Electrical and Computer
16 Engineering and a Master of Business Administration Degree from the
17 University of South Carolina. Prior to joining SCE&G, I worked with
18 Westinghouse Electric Corporation in Asheville, North Carolina, where I
19 provided technical support for sales and marketing of equipment for
20 electrical generators. In addition, I held other positions with
21 Westinghouse’s Distribution and Control Business Unit in product

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1 engineering, quality engineering and technical sales in Sumter and
2 Charleston, South Carolina and Charlotte, North Carolina.

3 I joined SCE&G in 1992 as a Quality Advisor for process
4 improvement efforts in the Fossil/Hydro Business Unit. During my tenure
5 with SCE&G and SCE&G's parent company, SCANA Corporation, I have
6 also worked as a Key Account Manager, providing energy and technology
7 consultation to SCE&G's largest industrial customers. Prior to assuming
8 my current position, I worked for SCANA Corporation as its Manager of
9 Community/Economic Development and Local Government, overseeing
10 industry and other business recruiting activities and the company's
11 interface with municipal and county governments in the central and
12 northwestern regions of SCE&G's electric and gas service territory. My
13 current position is SCE&G's Director of Demand Side Management. My
14 efforts are focused on developing and expanding SCE&G's demand side
15 management programs.

16 In addition to my work experience I have also served as a member of
17 various community and business organizations, including the Board of
18 Directors of Columbia's City Center Partnership, the Greater Columbia
19 Chamber of Commerce Issues Committee, the Board of Directors of the
20 Central South Carolina Alliance's Committee of 100, and as an officer of
21 the South Carolina Economic Developers Association Board of Directors.

1 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION IN**
2 **THE PAST?**

3 A. No. This will be the first time I have testified before the
4 Commission.

5 **Q. WHAT SUBJECTS DO YOU DISCUSS IN YOUR TESTIMONY?**

6 A. My testimony discusses SCE&G's proposed suite of Demand Side
7 Management ("DSM") programs and how SCE&G evaluated and selected
8 the programs to be included as proposed programs in this docket. I will
9 provide an overview of the proposed DSM rate rider and the incentive the
10 Company is requesting. My testimony also discusses the mechanism by
11 which certain qualifying commercial and industrial customers of SCE&G
12 will "opt out" of the DSM programs and corresponding rate rider. Finally,
13 my testimony will also introduce the testimony of the other Company's
14 witnesses in this case.

15 **SCE&G'S WITNESSES**

16 **Q. WHO ARE THE OTHER WITNESSES THAT WILL PROVIDE**
17 **DIRECT TESTIMONY FOR SCE&G?**

18 A. The other SCE&G witnesses providing direct testimony are:

19 1. **David K. Pickles**, Vice President, ICF International. Mr.
20 Pickles will testify concerning the comprehensive review of potential
21 energy efficiency and demand reduction programs that he and his
22 organization conducted for SCE&G. Mr. Pickles will also provide detailed

1 information concerning the specific programs selected by SCE&G to be
2 proposed here.

3 2. **Kenneth R. Jackson**, Vice President, Rates and Regulatory
4 Services, SCANA Services, Inc. Mr. Jackson will testify concerning the
5 Company’s proposal to recover its DSM costs through a rate rider to be
6 established in this docket. He will also discuss the methods by which
7 SCE&G will administer the proposed rider and the procedures for annual
8 reviews of the rate rider and resetting of the amount to be recovered under
9 it.

10 3. **Scott D. Wilson**, Principal, Wilson Consulting Group. Mr.
11 Wilson will discuss the basis for the proposed 3% incentive added to the
12 cost of equity and related issues of cost recovery.

13 **OVERVIEW OF DSM ANALYSIS**

14 **Q. PLEASE DESCRIBE THE PROCESS UNDERTAKEN BY SCE&G**
15 **TO IDENTIFY AND DEVELOP THE PROPOSED DSM**
16 **PROGRAMS.**

17 A. In 2008, SCE&G commissioned a comprehensive, “bottom up”
18 analysis to determine how it might expand its offering of DSM programs to
19 assist customers interested in reducing their demand for electricity and
20 improving their energy efficiency. To ensure that this analysis was
21 conducted in a thorough and professional way, SCE&G hired one of the
22 leading energy consulting firms nationally, ICF International (“ICF”). ICF

1 was given a mandate to use its considerable national and international
2 experience with DSM programs to consider any measures it believed to
3 have potential for SCE&G's system. ICF was instructed to perform careful
4 cost/benefit screenings on selected programs. This was consistent with the
5 Company's commitment to implement only those programs and measures
6 that showed a reasonable likelihood of producing verifiable and cost-
7 effective benefits to customers and the system.

8 **Q. PLEASE DESCRIBE THE PROCESS UNDERTAKEN BY ICF TO**
9 **IDENTIFY AND DEVELOP THE PROPOSED DSM PROGRAMS.**

10 A. Mr. Pickles will testify to this assessment process in more detail.
11 However, in overview, this process included:

- 12 • An assessment of currently available DSM data specific to
13 SCE&G's service territory,
- 14 • The identification of a broad range of potential DSM
15 measures and programs based on a national review of DSM
16 programs and best practices,
- 17 • The determination of the peak demand and energy impacts of
18 the most promising DSM measures,
- 19 • The estimation of the current and future penetration of energy
20 efficiency measures and their cost,
- 21 • The forecasting of the potential impact of the DSM programs,
22 and

- 1 • A review of results against the actual experience of other
2 utilities and against other studies of the potential for DSM
3 performed in other jurisdictions.

4 This analysis used program ramp-up rates and other SCE&G specific
5 data such as weather, market infrastructure, customer demographics,
6 building codes, rates, avoided costs, cost-effectiveness criteria, system
7 reliability and fuel diversity needs. To support this process, SCE&G made
8 available to ICF the South Carolina Measures Library Database (the
9 “Measures Database”) created by Morgan Marketing Partners for SCE&G,
10 Duke Energy, Progress Energy and Santee Cooper. The Measures
11 Database quantifies the likely impact on energy usage and demand related
12 to a broad range of DSM measures and includes data and analysis specific
13 to South Carolina’s customers and their usage patterns.

14 **Q. WHAT ROLE DID SCE&G PLAY IN ICF’S PROGRAM**
15 **ANALYSIS?**

16 A. SCE&G provided ICF with extensive information about SCE&G’s
17 system and customers. SCE&G worked closely with ICF to review its
18 analytical work and to assist in structuring the programs to make them most
19 appealing to SCE&G’s customers and trade allies, and to ensure that
20 measures would be practical to implement.

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1 **Q. WHAT PRINCIPLES GUIDED THIS EFFORT?**

2 A. SCE&G adopted the following principles to guide the creation of the
3 DSM portfolio:

4 1. DSM programs should be offered to all customer classes.

5 2. The portfolio of programs should provide a reasonable
6 opportunity for all customers to participate in at least one program.

7 3. All programs should be cost effective as measured by the
8 TRC test, with flexibility possible on a case-by-case basis for certain low-
9 income measures.

10 4. Each program should provide a meaningful contribution to
11 MW or MWH savings on SCE&G's system.

12 5. Programs should be practical to implement; undue complexity
13 should be avoided.

14 6. The rate impacts of the overall portfolio should be acceptable.

15 7. The size and scope of the portfolio should demonstrate an
16 appropriate commitment by SCE&G to DSM resources, that commitment
17 being measured both in anticipated savings and the amount of money
18 invested.

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1 **Q. WHAT CUSTOMER AND COMMUNITY OUTREACH WAS**
2 **INVOLVED IN THIS EFFORT?**

3 A. In March, SCE&G initiated a marketing/advertising campaign to
4 engage customers in providing SCE&G input on the types of programs they
5 would like to see us implement to help them save energy. Primary outreach
6 included a variety of channels – bill inserts, newspaper advertising and
7 online promotions – each with a message encouraging customers to go
8 online to complete a web-based survey. SCE&G also distributed paper
9 surveys at key state-wide community events and SCE&G business offices
10 throughout South Carolina.

11 Furthermore, SCE&G commissioned a detailed outbound telephone
12 survey with SCE&G’s residential customers to develop insight into
13 customers’ perceptions on energy efficiency. Approximately 500
14 individual customer interviews were conducted reflecting a representative
15 and statistically significant sample of residential customers from across the
16 system. In addition, SCE&G actively solicited input from key energy
17 advocates, large commercial and commercial customer groups, and other
18 stakeholders throughout South Carolina, to include a combination of one-
19 on-one meetings and group presentations.

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1 **Q. WHAT WAS THE OUTCOME OF THIS ANALYSIS AND**
2 **REVIEW?**

3 A. As a result of ICF’s analysis, and the customer outreach and internal
4 review conducted by SCE&G, SCE&G has identified a suite of nine (9)
5 DSM programs, in addition to its current demand response offerings that it
6 proposes to implement at this stage of the development of its expanded
7 DSM initiative. These programs represent a balanced portfolio of DSM
8 programs that SCE&G believes to be responsive to customer’s needs and
9 practical to implement. All of them are cost justified consistent with
10 SCE&G’s commitments and principles listed above.

11 **OVERVIEW OF DSM PROGRAMS**

12 **Q. PLEASE GIVE AN OVERVIEW OF THE SCALE OF THE DSM**
13 **PROGRAMS SCE&G PROPOSES TO IMPLEMENT AT THIS**
14 **STAGE OF ITS DSM EFFORTS.**

15 A. ICF has prepared an analysis of the forecasted costs and benefits of
16 the nine programs proposed here. The ICF analysis shows that, in the third
17 full year of their implementation, these programs are forecasted to represent
18 collectively a \$25 million annual investment by SCE&G in the energy
19 efficiency of its customers.

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Chart 1-Initial Forecast of DSM Costs and Benefits

Program	MWh			MW		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Residential Benchmarking	8,250	16,603	25,061	3.02	6.09	9.19
Residential Information Displays	1,662	3,602	5,863	0.27	0.58	0.94
Residential Audits (Tier 1 and 2)	2,250	5,668	10,281	0.48	1.21	2.19
Residential Lighting and Appliances	24,373	51,293	80,822	3.15	6.64	10.46
Residential New HVAC and Water Heat	7,007	15,860	26,606	1.65	3.82	6.51
Residential Existing HVAC Efficiency	3,755	11,359	22,908	1.72	5.20	10.49
Residential ENERGY STAR New Homes	225	681	1,373	0.08	0.24	0.48
Commercial and Industrial Prescriptive	36,327	78,380	126,950	3.47	7.49	12.13
Commercial and Industrial Custom	19,029	41,057	66,499	2.87	6.19	10.03
TOTAL	102,878	224,503	366,363	16.71	37.44	62.41

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Program	Program Costs \$M			BC Test	
	Year 1	Year 2	Year 3	TRC	PAC
Residential Benchmarking	0.55	0.43	0.44	10.38	10.38
Residential Information Displays	0.71	0.83	0.96	1.62	1.81
Residential Audits (Tier 1 and 2)	2.04	3.09	4.18	1.07	1.23
Residential Lighting and Appliances	3.34	3.64	3.99	1.67	2.50
Residential New HVAC and Water Heat	2.89	3.67	4.56	1.31	1.65
Residential Existing HVAC Efficiency	1.35	2.53	3.85	2.15	4.56
Residential ENERGY STAR Homes	0.29	0.34	0.48	1.32	2.04
Commercial and Industrial Prescriptive	2.94	3.10	3.58	3.58	5.96
Commercial and Industrial Custom	2.24	2.42	2.79	3.47	4.74
TOTAL	16.35	20.05	24.84	2.35	3.46

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ICF's forecasts of program costs and benefits are based on

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assumptions as to multiple variables including rates of customer acceptance

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and participation in the proposed programs; the ability to recruit and train

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trade allies; the performance of trade allies; economic conditions in

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SCE&G service territory; changes in technology and in the cost of more

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energy efficient measures relative to alternatives; changes in

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governmentally-mandated efficiency standards; and other factors. The

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estimates provided here have not been adjusted to reflect the opt-out of any

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eligible customers, the effect of which is difficult to estimate in advance.

1 These estimates are by twelve month period from the date that each
2 program is publicly made available to customers, *i.e.*, after approval by the
3 Commission and after putting in place the personnel, material, trade allies
4 and other resources necessary to successfully market and deliver the
5 programs. The estimates assume that all programs are rolled out
6 simultaneously which is not likely to be the case.

7 Nonetheless, so long as these limitations are kept in mind, the ICF
8 analysis provides a useful measure of the anticipated size and collective
9 impact of the nine proposed programs three years after the initial rollout of
10 each. Based on the ICF analysis, at this hypothetical three-year mark, the
11 nine programs can reasonably be forecasted to have reduced customers'
12 energy demand by 366,363 MWH cumulatively and to reduce demand on
13 SCE&G's system by 62 MW. By the end of this hypothetical third year,
14 SCE&G can be forecasted to have invested approximately \$61 million in
15 DSM programs.

16 **Q. HOW DO THESE PROJECTIONS COMPARE WITH THOSE**
17 **CONTAINED IN THE FILING IN THIS MATTER?**

18 A. The program and cost information is the same, but ICF revised the
19 MWH and MW savings estimates, and associated cost/benefit test results,
20 to correct a copying error in data sets used initially for those calculations.
21 The most significant change is a reduction in the MW cumulative savings
22 estimate, which in the third year drops from 70 MW, as reported in the

1 filing, to 62 MW. Even with this reduction, all the proposed programs still
2 pass the screening tests and the changes do not affect the DSM portfolio
3 that the Company is proposing here.

4 **Q. PLEASE GIVE A SHORT DESCRIPTION OF THE DSM**
5 **PROGRAMS SCE&G PROPOSES TO IMPLEMENT AT THIS**
6 **STAGE OF ITS DSM EFFORTS.**

7 A. Of the nine programs proposed here, seven target SCE&G's
8 residential customer class and two target SCE&G's commercial and
9 industrial customer classes. SCE&G's witness David Pickles will provide
10 detailed testimony regarding the specifics of each program. A high-level
11 overview and summary of these programs is as follows:

12 **Information Based Programs** – Two of the nine proposed
13 programs are focused on providing customers with information about the
14 costs and impacts of their individual energy usage. Such information is an
15 important first step in motivating customers to change inefficient or
16 wasteful behaviors and to consider implementing energy efficiency
17 measures such as those highlighted by other SCE&G programs. The
18 information-based programs that the Company is proposing to implement at
19 this stage of the development of its DSM program are the Residential
20 Benchmarking program and the Residential Energy Information Display
21 program.

1 The **Residential Benchmarking** program will provide consumers
2 with comparisons of their monthly energy consumption with benchmarks
3 showing average energy consumption by similarly situated energy users.
4 The monthly benchmarking information will be provided free of charge to
5 customers who elect to participate in the program.

6 The **Residential Energy Information Display** program will provide
7 customers with an in-home display that shows information from the
8 customer’s meter regarding a home’s current energy use and cost, and the
9 use and cost to date for the month. The displays will be made available to
10 customers at a discounted price.

11 **Assessment Based Programs** – The **Residential Energy Check-up**
12 **and Home Performance Audit** will encourage customers to have a
13 specific assessment done of the energy efficiency of their homes. It will
14 include two tiers of home energy review and assessment. The Tier 1
15 Review will entail a visual checkup and “check-off” audit performed by
16 SCE&G staff at the customer’s home. As a direct DSM benefit and as an
17 incentive to customers to participate in the program, customers will be
18 offered direct installation of simple measures, such as installation of
19 compact fluorescent light bulbs (“CFL”), water heater wraps, and pipe
20 wraps. There will be a \$25 charge for the Tier 1 Review which will be
21 credited to customers who accept the direct installation of simple DSM
22 measures. The Tier 2 Audit would go a step further and provide a

1 comprehensive Home Performance Audit with diagnostic testing of the
2 energy efficiency of the home by trained contractors. SCE&G will promote
3 these audits by independent providers and will subsidize the cost of
4 measures undertaken by customers based on the audits.

5 **Incentives for Investing in Energy Efficient Fixtures,**
6 **Equipment, and Facilities** – A number of the programs proposed here
7 provide incentives for customers to invest in energy efficient fixtures,
8 equipment, and facilities, both for existing and new construction.

9 The **Residential ENERGY STAR® Lighting and Appliances**
10 program will provide residential customers with incentives for the purchase
11 and installation of high-efficiency and ENERGY STAR® qualified
12 products and appliances for a variety of applications, including high
13 efficiency lighting fixtures and bulbs. The **Residential Existing HVAC**
14 **Efficiency** program will provide residential customers with incentives for
15 investing in efficiency tune-ups on their HVAC systems. The **Residential**
16 **New High Efficiency HVAC and Water Heater** program will provide
17 incentives for HVAC units and water heaters installed in new and existing
18 homes.

19 Customers and builders willing to commit to overall high standards
20 of energy efficiency in new construction may receive incentives under the
21 **Residential ENERGY STAR® New Homes** program. This program will
22 provide incentives based on a comprehensive analysis of the energy

1 efficiency of new homes reflecting both the construction techniques used
2 and the appliances installed.

3 The **Commercial and Industrial Prescriptive** program will provide
4 incentives to non-residential customers to invest in the same sorts of high-
5 efficiency lighting, fixtures and appliances as are being provided to
6 residential customers, and will go beyond these to include things like high
7 efficiency motors and other equipment. To ensure simplicity, the program
8 will involve a master list of measures and incentive levels which will be
9 easily accessible to commercial and industrial customers.

10 The **Commercial and Industrial Custom** program will provide
11 tailored incentives to commercial and industrial customers based on the
12 calculated efficiency benefits of their particular energy efficiency plans or
13 construction proposals. This program is intended to apply to technologies
14 and applications that are more complex and customer-specific. All aspects
15 of these commercial and industrial programs will apply to both retrofit and
16 new construction projects.

17 In his testimony and exhibits, Mr. Pickles will describe all these
18 programs in greater detail. Each of the programs and the measures that
19 they include has been carefully analyzed to provide assurance that if they
20 function as intended, they will indeed provide sufficient benefits to
21 customers that justify their cost.

1 **Q. HOW WOULD YOU DESCRIBE THE SCOPE OF THE**
2 **COMPANY'S PROPOSED DSM PROGRAMS IN AGGREGATE?**

3 A. The proposed DSM programs provide benefit to customers in all
4 customer classes and provide a broad range of measures to support energy
5 efficiency in new construction and in existing construction. These
6 programs include programs targeting energy information and energy
7 assessments and programs providing incentives for specific energy
8 efficiency investments. In addition, each of these programs will be coupled
9 with a specific marketing plan that will further increase customer awareness
10 of the importance of energy efficiency and add to the information value of
11 the portfolio of programs as a whole. As Mr. Pickles will testify,
12 implementing this portfolio of programs will place SCE&G in a favorable
13 position nationally compared to other utilities in the scope of its DSM
14 activities.

15 **Q. CAN THESE BROAD-BASED PROGRAMS BE TARGETED TO**
16 **INDIVIDUAL MARKET SEGMENTS?**

17 A. Yes. The fact that the individual programs apply across entire
18 customer classes fosters ease of administration and oversight, and supports
19 customers' perceptions of fairness and inclusivity. However, where
20 segmentation helps more effectively market a program or measure to a
21 particular customer group, it is anticipated that the marketing and
22 administrating of the program may reflect such segmentation.

1 **Q. COULD YOU PROVIDE AN EXAMPLE?**

2 A. Yes. The Commercial and Industrial Prescriptive program includes
3 many individual measures, such as different types of high efficiency
4 lighting fixtures, equipment and HVAC units. In marketing this program to
5 the small business sector, targeted advertising and outreach can accentuate
6 those lighting fixtures, equipment and HVAC units most attractive in the
7 small business sector. Promotions for the same program targeted toward
8 large industrial customers might accentuate different measures from the list
9 that are potentially most attractive to them.

10 **Q. WILL SCE&G OFFER A SPECIFIC PROGRAM FOR LOW**
11 **INCOME CUSTOMERS?**

12 A. SCE&G's residential DSM programs will be available to customers
13 in all income groups and SCE&G does not intend to offer a specific
14 program for low income customers, per se. However, within particular
15 programs, such as the Residential Energy Check-up and Home Performance
16 Audit, increased incentives and subsidies will be made available to
17 qualifying low income customers to make it more attractive and feasible for
18 them to participate.

19 **Q. WHAT IS THE RATIONALE FOR THIS APPROACH?**

20 A. Historically, low income programs have focused on weatherizing the
21 homes of low income customers. The South Carolina Governor's Office -
22 Office of Economic Opportunity has administered low income

1 weatherization and energy efficiency programs for some time, working
2 through local community action agencies. The American Recovery and
3 Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115, represents a
4 major increase in funding for these programs. This new level of funding
5 will require the Governor's Office - Office of the Economic Opportunity
6 and the community action agencies that work with it to expand their
7 programs and contractor networks dramatically. The Company does not
8 believe that it would be helpful or efficient to duplicate these rapidly
9 expanding governmental efforts.

10 As to its other DSM programs, the Company believes that serving
11 low-income customers within general programs, and providing special
12 accommodations to such customers where needed, is the most effective
13 way to administer these programs. This approach will promote ease of
14 implementation of the overall suite of programs, and will foster economies
15 of scale in their administration and marketing.

16 **THE RELATIONSHIP OF THESE PROPOSED DSM PROGRAMS TO**
17 **EXISTING DSM PROGRAMS**

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19 **Q. PLEASE DESCRIBE SCE&G'S EXISTING DEMAND RESPONSE**
20 **DSM PROGRAMS.**

21 A. SCE&G's current demand response DSM programs, which are rate-
22 related programs, include interruptible load and standby generator
23 programs.

1 **Q. WHAT DO THE CURRENT DEMAND RESPONSE PROGRAMS**
2 **DO?**

3 A. The interruptible load program assists SCE&G in managing its peak
4 load through customers agreeing to curtail their usage within a specified
5 notice period. Under the standby generator program, customers agree to use
6 their on-site emergency generation to displace their load on SCE&G's
7 system. These programs are tariff-based and offer customers credits on
8 their bills for agreeing to limit or interrupt electricity usage upon
9 notification by the Company. Administering these programs requires
10 SCE&G to notify customers when interruptions of service are required, and
11 to verify that the appropriate customers have responded. For those reasons,
12 the current demand response programs target commercial and industrial
13 customers whose curtailments can make a significant difference to system-
14 wide demand.

15 **Q. HAVE THESE PROGRAMS BEEN SUCCESSFUL?**

16 A. Yes. These programs have been very successful. These programs
17 are currently reducing SCE&G's peak loads by more than 4%, which puts
18 SCE&G ahead of its region and the majority of other utilities nationwide in
19 its use of demand response programs to reduce peak demands.

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1 **Q. DO YOU BELIEVE THAT MORE DEMAND RESPONSE**
2 **PROGRAMS ARE NEEDED?**

3 A. The Company is not proposing additional demand response
4 programs at this stage of SCE&G's implementation of its expanded DSM
5 programs. The Company is already relying on demand response to meet a
6 substantial amount of its peak demand. Because of the effects of existing
7 demand response programs and because of SCE&G's Fairfield Pump
8 Storage generating unit, which acts as a peak-shaving resource, the
9 Company's peak is already relatively flat. This flatter peak means that
10 customers have to agree to longer interruptions to provide an impact across
11 the peak. In addition, SCE&G's on-system reserve margin, which reflects
12 its system generating resources, is only about 8%. This narrow margin
13 gives the system little room for error if new demand response resources
14 were not to perform as anticipated. In this context, adding additional
15 demand response resources could have repercussions for system reliability.

16 For these reasons, the Company is not proposing additional demand
17 response programs at this stage of its DSM expansion. But this is not a
18 static issue. The Company may reconsider adding additional demand
19 response programs at a future date depending on how system conditions
20 and DSM capabilities evolve.

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1 **Q. WHAT OTHER RATE-RELATED DSM PROGRAMS DOES**
2 **SCE&G OFFER?**

3 A. In addition to its interruptible load and standby generator programs,
4 SCE&G also offers customers other rate-related options. These rate
5 options include real time pricing (“RTP”) and time of use (“TOU”) rates
6 which incentivize customers to save money by shifting usage to off-peak
7 periods. In addition, residential conservation rates reward customers whose
8 homes comply with specified energy efficiency standards for construction
9 or remodeling. More than 50,000 residential customers are served under
10 the Residential Energy Saver/Conservation rate and more than 20% of
11 commercial sales are under TOU or RTP rates.

12 **Q. HOW DO THESE RATE-RELATED DSM PROGRAMS FACTOR**
13 **IN THE MATTERS UNDER CONSIDERATION IN THIS**
14 **PROCEEDING?**

15 A. These rate-related DSM programs are not proposed to be subject to
16 the rate riders or otherwise be affected by the relief requested in this
17 proceeding. SCE&G proposes to leave these rate related programs in place
18 until they are changed by order of the Commission in a future rate
19 proceeding.

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1 **Q. WHAT NON-RATE-RELATED DSM PROGRAMS DOES SCE&G**
2 **OFFER AND HOW ARE THEY AFFECTED BY THIS FILING?**

3 A. SCE&G currently offers customer information programs and energy
4 conservation programs including the Value Visit and In-Home Energy
5 Consultation Programs, various web-based energy information and
6 assessment tools and the Annual Energy Campaign, which includes a
7 variety of energy education efforts and weatherization projects. SCE&G
8 proposes to merge the Value Visit and In-Home Energy Consultation
9 Programs into the Home Energy Check-Up DSM program previously
10 discussed and may merge other programs into the programs discussed here
11 in the future.

12 **FLEXIBILITY**

13 **Q. WHAT FLEXIBILITY IS SCE&G REQUESTING TO ALTER ITS**
14 **DSM PORTFOLIO GOING FORWARD?**

15 A. In its filing in this matter, SCE&G is requesting the flexibility to
16 modify, amend, terminate and/or add any measure or program to its suite of
17 programs without the requirement of seeking prior Commission approval to
18 do so.

19 **Q. WHAT REGULATORY OVERSIGHT WOULD BE PROVIDED?**

20 A. All program changes would be reported in the annual filings
21 proposed in the petition in this matter. All changes in these programs
22 would be open to review by ORS and the Commission and the Company

1 would specifically anticipate them to be reviewed and audited in response
2 to the annual update filings. SCE&G believes that the review and oversight
3 structure proposed here strikes the proper balance between efficiency and
4 flexibility in administering the programs and the need for appropriate
5 regulatory oversight of the decisions made.

6 **Q. WHY IS THIS FLEXIBILITY NECESSARY?**

7 A. SCE&G believes that flexibility to change programs between annual
8 reviews is important to maximize the benefits of its DSM programs and to
9 manage the costs of these programs. As it implements the proposed
10 programs, SCE&G will gain important new information about its
11 customers' interests, needs and responses. Measures which prove more
12 popular than anticipated may need to be expanded. Measures that are less
13 effective than anticipated may need to be revised, downsized or terminated.

14 Permitting SCE&G to have the authority to alter its DSM measures
15 and programs as requested will ensure that they can be routinely updated in
16 response to changing needs of the customers and the system. Such
17 flexibility will allow for faster evolution of programs to meet customer
18 expectations, and will make for a more efficient and effective suite of
19 programs in the long run.

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1 **OPT-OUT PROVISION**

2 **Q. PLEASE DESCRIBE THE MECHANISM FOR ALLOWING**
3 **CERTAIN CUSTOMERS TO OPT-OUT OF THE DSM PROGRAM**
4 **AND CORRESPONDING DSM RIDER.**

5 A. SCE&G proposes to allow large commercial and industrial
6 customers to opt-out of DSM programs and costs so long as they meet the
7 following conditions: The customer must be a business entity using the
8 Company's standard electric service. The customer must have either: (1)
9 an average monthly billing demand over the past twelve months that is
10 greater than 3500 kW at a single contiguous service site; or (2) for at least
11 two non-contiguous premises, an average aggregated monthly billing
12 demand over the past twelve months that is greater than 6000 kW with each
13 premises having an average demand of 100 kW. The Company's rate
14 witness, Mr. Jackson, will explain the rationale for these minimum
15 requirements in his testimony.

16 **Q. WHAT OTHER CONDITIONS MUST A QUALIFYING**
17 **CUSTOMER MEET IN ORDER TO OPT-OUT OF DSM**
18 **PROGRAMS AND COSTS?**

19 A. Qualifying customers wishing to opt-out must certify in writing to
20 the Company that they have conducted an energy-efficiency audit within
21 the past three (3) years and that they are implementing measures that are at
22 least equivalent in energy and demand savings to those anticipated under

1 the Company's DSM programs for the applicable customer class. These
2 certifications shall be valid for twelve (12) months. SCE&G currently does
3 not intend to conduct any verification or audit of the information provided
4 in the customer's certification.

5 **Q. ARE THERE ANY OTHER RESTRICTIONS ON ELIGIBILITY**
6 **FOR THIS OPT-OUT?**

7 A. Yes. Qualifying customers may not selectively opt-out of individual
8 programs but, rather, must elect to opt-out of all programs as a group for all
9 eligible accounts. This opt-out is also not available to entities which form
10 an association or similar organization for the purpose of taking advantage
11 of it and is not available for residential customers or resale service. Once a
12 customer has participated in a program, it may not opt out of the rider for
13 the length of time that costs of the program are amortized.

14

15 **OVERVIEW OF THE COST RECOVERY AND INCENTIVE PROPOSAL**

16 **Q. PLEASE PROVIDE AN OVERVIEW OF SCE&G'S PROPOSED**
17 **RIDER FOR THE RECOVERY OF DSM COSTS, INCENTIVE**
18 **RETURN AND LOST NET MARGIN REVENUE.**

19 A. SCE&G is proposing a relatively simple and transparent mechanism
20 for recovering its DSM costs, incentive return and lost net margin revenue.
21 The Company's rate witness, Kenneth Jackson, will describe the
22 administration of the proposed rider in detail in his testimony. The gist of

1 the proposal, however, is that SCE&G be allowed to recover program costs
2 amortized over five years, lost revenues incurred between each general rate
3 case, and its cost of capital on its unrecovered DSM balance. The cost of
4 capital will include a 3% incentive on its cost of equity. SCE&G believes
5 that this recovery mechanism is reasonable and workable and will provide
6 incentives sufficient to make investment in DSM resources at least as
7 attractive as investments in generating resources.

8 **Q. WHAT DOES SCE&G PROPOSE REGARDING MONITORING**
9 **AND VERIFICATION OF ITS PROGRAMS?**

10 A. SCE&G has included funds for monitoring and verification in its
11 program budgets. The Company intends to develop monitoring and
12 verification initiatives for its programs once they have been approved and
13 to begin implementing those initiatives as the programs are being rolled
14 out.

15 **CONCLUSION**

16 **Q. WHAT ARE YOU ASKING THIS COMMISSION TO DO?**

17 A. SCE&G respectfully requests that the Commission review the
18 testimony and other evidence in this proceeding and issue an order

19 1. Approving the nine DSM programs proposed by the Company for
20 implementation;

21 2. Approving the cost recovery rider as set forth in the petition to this
22 matter;

- 1 3. Adopting the requirement for annual reporting of DSM results and
2 adjustments to the rate rider as proposed in the petition;
3 4. Granting the Company the right to make changes and amendments to its
4 DSM measures, programs and suite of programs; and
5 5. Authorizing other relief as required.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes, it does.

8